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In Reply Refer To: 314/264

LOAN GUARANTY INFORMATION LETTER No. 26-99-16

TO: ALL LENDERS

SUBJECT: POLICY CHANGES TO INTEREST RATE REDUCTION
REFINANCING LOAN (IRRRL) PROGRAM

1. Purpose: This Information Letter restates and clarifies information contained in Circular 26-99-11, and local Loan Guaranty Information Letter 26-99-14, dated May 18, 1999, which are both now *rescinded*. The effective date has been changed and clarification is provided on when a lender has to certify that the loan being refinanced is current (see pars. 2 and 4 below).

2. Effective Date: The effective date of the changes described below will be **June 7, 1999**. This means that all loan applications taken on or after June 7, 1999 must incorporate the new changes. For IRRRL purposes, "application" means the written proposal described in chapter 4 of VA Lender's Handbook that, among other things, compares the terms of the existing loan with those of the proposed loan.

(a) ***Payment reduction*** - For all IRRRL loan applications taken on or after June 7, 1999, **the principal and interest payment must be less than the principal and interest payment of the VA loan being refinanced unless:**

- an adjustable rate mortgage is being refinanced by a fixed rate VA IRRRL, **or**
- the term of the IRRRL is shorter than the term of the previous VA guaranteed loan, **or**
- energy efficient improvements are included in the IRRRL.

Note: The requirement that a lender certify the veteran is able to make the new payment amount in cases where the PITI is increasing by 20 percent or more will continue to apply.

(b) **Delinquent loans** - Also effective June 7, 1999, an IRRRL made to refinance a delinquent VA loan **may not** be processed and closed under the automatic procedure. This means that an IRRRL loan on which the application was taken on or after June 7, 1999 must be submitted to VA for prior approval if the loan is delinquent. (**NOTE:** For VA purposes, "delinquent" means any loan on which a payment is more than 30 days past due on the date of closing. This is a change from previous procedures which permitted lenders to close IRRRLs on the automatic basis as long as there were less than 3 payments past due.)

3. Additional Documentation for Delinquent Loans: In addition to the normal documentation required for IRRRL loans submitted to VA for prior approval (see chapter 4 in the VA Lender's Handbook), **all** of the following information must be submitted:

- Explanation of reason(s) for loan delinquency, including documentation to support the explanation, **and** evidence that the cause of delinquency has been resolved,
- Credit report (in-file is acceptable),
- Current pay stub and telephone verification of current employment (if not employed, evidence of source of income such as disability, etc.),
- Completed VA Form 26-6393, Loan Analysis, and
- 12-month payment history of current mortgage (if not on credit report).

Note: Please identify the case as a Prior Approval. Please do not include a Loan Summary Sheet (VA Form 26-0286) with the prior approval submission.

4. Lender Certification: For all IRRRLs closed on the automatic basis in which the application is dated on or after June 7, 1999, the lender must certify the prior VA loan was not delinquent (not more than 30 days past due) on the date of closing the IRRRL. The certification may be executed by anyone authorized to sign documents for the lender. The following scenarios are offered to provide guidance for lenders.

- Assume a veteran applies for an IRRRL on June 10, 1999 and has already made the June 1 payment. A lender could close the IRRRL anytime before the end of July and still make a valid certification that the prior VA loan was not delinquent. This is because the July 1 payment, the next one due, would not be more than 30 days past due if the IRRRL was closed in July.
- Assume a veteran applies for an IRRRL on July 10th but has not yet made the June 1 payment. The IRRRL is scheduled to close July 25th. As long as the June 1 payment is made **before** July 25th, the date the IRRRL is to close, the lender can properly make the certification that the prior VA loan was not delinquent on the date of closing.

5. A change to the VA Lender's Handbook will be forthcoming which will provide additional background information on these changes. The VA Lender's Handbook and all program changes are published on VA's website at: **www.vba.va.gov/bln/loan/lenders/htm**.

6. Please share this information with all personnel involved with originating, processing, or underwriting VA home loans.

7. Rescission: Loan Guaranty Information Letter 26-99-14, dated May 18, 1999.

W. D. Hogan

ref. VBA Circular 26-99-12